

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-02-10
--	----------------------

**ORDER DOCKETING CASE, ESTABLISHING PROCEDURAL SCHEDULE,
AND REQUIRING ADDITIONAL INFORMATION**

(Issued January 21, 2003)

On November 26, 2002, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) an application for determination of ratemaking principles pertaining to the proposed 750 MW Council Bluffs Energy Center Unit 4 (CBEC-4), a coal-fired generating facility located at MidAmerican's existing Council Bluffs Energy Center in Council Bluffs, Iowa. The Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an answer, objection, and response on December 12, 2002.

This is the third ratemaking principles proceeding pursuant to Iowa Code § 476.53. This section provides that when defined new electric generation is constructed by a public utility, the Board shall specify in advance, by order issued after a contested case proceeding, the ratemaking principles that will apply when the costs are included in electric rates.

The Board has reviewed the application and will docket it for investigation and set a procedural schedule. However, the Board notes that the general contractor's

contract has not yet been executed and filed with the Board. Until the contract is executed, only projected cost information is available. MidAmerican believes that the contract will be signed by the end of January 2003. The procedural schedule will be set based on the contract information being available by January 31.

In its "Order Granting Request for Confidentiality" issued December 17, 2002, the Board noted that it understood the need to keep total projected cost information confidential during the bidding process. The Board also said "such information will likely be important to potential intervenors in the ratemaking principles proceeding as they decide whether to expend time and resources as parties to that proceeding." Interested persons must have sufficient time to evaluate and analyze the cost information. The procedural schedule may have to be extended if cost information is not publicly available until after January 31.

The procedural schedule contains relatively short time frames for MidAmerican's rebuttal testimony and Consumer Advocate's and any intervenors' surrebuttal testimony to accommodate MidAmerican's proposed June 2003 starting date for site preparation as nearly as possible. Because of the accelerated schedule, the time for response to data requests issued on and after March 7, 2003, will be shortened from seven days to five days. 199 IAC 7.7(1)"c."

The Board will also require additional information to be provided. MidAmerican will be required to respond to all three questions; other parties may, if they choose, provide responses to part b of question two and question three. All

those responding to the questions should identify the person or persons providing each response.

1. Why is MidAmerican concerned about a potential double-leverage adjustment when its parent has no outstanding long-term debt? What activities are done or planned that might subject MidAmerican to a potential double-leverage adjustment?

2. In his direct testimony, Dr. Vander Weide employs “the comparable company approach” (p. 9, lines 18-23) and argues against the double-leverage approach (pp. 40-47) for estimating a regulated subsidiary’s cost of equity. In a recent article¹ contrasting the “double leverage approach” with the “independent firm approach,” the author finds fault with both approaches and concludes that “to estimate the required rate of return on equity for a wholly owned subsidiary, the subsidiary’s stand-alone cost of equity must first be approximated and then adjusted downward to account for the interest tax shields created by the subsidiary’s equity.”

a. Was Dr. Vander Weide aware of this recent study when preparing his testimony in this case? If yes, reconcile the article’s finding with his theoretical understandings of the issue. If not, how would his testimony change, if at all, to take the article’s findings into consideration?

¹ Hsu, Christine, “Capital Budgeting Analysis in Wholly Owned Subsidiaries,” *Journal of Financial and Strategic Decisions*, Vol. 13, No. 1, Spring 2000.

b. If the Board adopted the comparable company approach to estimate the subsidiary's stand-alone cost, how should the debt-rated tax benefit be handled in determining the cost of equity in a rate case?

3. It has been argued that recognition of double leverage in determining revenue requirement discourages parent companies from incurring debt and financial risk at the parent level. If double leverage is not recognized, what other measures can the Board use to promote financial soundness not only at the utility level but also at the parent level?

IT IS THEREFORE ORDERED:

1. An investigation is initiated with respect to the application for determination of ratemaking principles filed by MidAmerican Energy Company on November 26, 2002. This matter is identified as Docket No. RPU-02-10, a formal contested case proceeding. The expenses reasonably attributable to this investigation will be assessed to MidAmerican in accordance with Iowa Code § 476.10 (2001).

2. The following procedural schedule is established:

a. The parties shall notify the Board prior to February 25, 2003, if they desire a prehearing conference.

b. Consumer Advocate and any intervenors shall file prepared direct testimony, with underlying workpapers and exhibits, on or before

March 7, 2003. If a party references a data request in its prepared testimony, the data request shall be filed as an exhibit.

c. MidAmerican shall file its rebuttal testimony, with underlying workpapers and exhibits, on or before March 24, 2003.

d. Consumer Advocate and any intervenors may file rebuttal testimony, with underlying workpapers and exhibits, addressing MidAmerican's objections and disagreements to Consumer Advocate's and intervenors' direct testimony, on or before April 7, 2003.

e. The parties shall file a joint statement of the issues on or before April 9, 2003.

f. All parties that choose to file a prehearing brief may do so on or before April 15, 2003.

g. A hearing shall be held beginning at 9 a.m. on April 30, 2003, for the purpose of receiving testimony and the cross-examination of all testimony. The hearing shall be held in the Board's hearing room at 350 Maple Street, Des Moines, Iowa 50319-0069. The parties shall appear one-half hour prior to the time of the hearing for the purpose of marking exhibits. Persons with disabilities requiring assistive services or devices to observe or participate should contact the Utilities Board at (515) 281-5256 in advance of the scheduled date to request that appropriate arrangements be made.

h. All parties may file initial briefs on or before May 14, 2003.

i. All parties who filed initial briefs may file reply briefs on or before May 21, 2003.

3. In the absence of objection, all underlying workpapers shall become a part of the evidentiary record of these proceedings at the time the related testimony and exhibits are entered into the record.

4. In the absence of objection, all data requests and responses referred to in oral testimony or on cross-examination that have not been previously filed shall become a part of the evidentiary record of these proceedings. The party making reference to the data request shall file an original and six copies of the data request and response with the Board at the earliest possible time.

5. In the absence of objection, when the Board has called for further evidence on any issue and the evidence is filed after the close of the hearing, the evidentiary record will be reopened and the evidence will become part of the record five days after the evidence is filed with the Board. All evidence filed pursuant to this paragraph shall be filed no later than seven days after the close of the hearing in this proceeding.

6. The seven day time period for response to data requests contained in 199 IAC 7.7(1)"c" is shortened from seven to five days for all data requests issued on and after March 7, 2003.

7. MidAmerican shall provide the additional information discussed in the body of this order within 20 days from the date of the order; other parties may provide responses to part b of question 2 and question 3 within 20 days from the date of this order.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 21st day of January, 2003.